

THIS REPORT CONTAINS ASSESSMENTS OF COMMODITY AND TRADE ISSUES MADE BY USDA STAFF AND NOT NECESSARILY STATEMENTS OF OFFICIAL U.S. GOVERNMENT POLICY

Required Report - public distribution

**Date:** 4/14/2014

**GAIN Report Number:**

## **Nigeria**

### **Sugar Annual**

### **Annual Sugar Report for Nigeria 2014**

**Approved By:**

Russ Nicely, Regional Agricultural Counselor

**Prepared By:**

Olaito Peace

**Report Highlights:**

Nigeria is Africa's largest sugar importer. Estimated imports of 1.34m MT in marketing year 2013/14 are slightly higher up from 1.32 million tons for MY 2012/13. Post expects sugar consumption to continue to grow steadily, driven by rising disposable incomes and growth of the urban population (which tends to consume more sugar than rural communities). Although the bold targets laid out in the Nigerian Sugar Master Plan are unlikely to be met in their entirety, the government's backward integration programme is enhancing the establishment of domestic processing capacity in Nigeria. If production reaches a forecast 1.7mn MT by 2020, the country could be in a position to export as much as 275,000 MT of raw sugar to the nearby countries.

## **Overview:**

The Nigerian government (GON) has prepared special incentives for investors in the sugar industry, especially those that have taken advantage of the GON's Backward Integration Policy by investing in domestic sugar production.

The Minister of Industry, Trade and Investment, Mr. Olusegun Aganga, announced that the incentives would be similar to what was given to investors who joined the government's Backward Integration Policy in the cement industry, adding that the move would help the country to achieve self-sufficiency in sugar production for both domestic consumption and export.

According to the National Sugar Development Council (NSDC), Nigeria has a land potential of over 500,000 hectares for suitable cane fields that could produce over 5 million metric tons of sugarcane that when processed, can yield about 3 million metric tons of sugar. In order to improve Nigeria's sugar sector, the Nigerian government (GON) decided to privatize all its sugar estates. The NSDC was set up in 1993 and its first task was to arrange the privatization of the country's nationalized sugar companies.

In its efforts to support the sector, the GON has initiated incentives to provide a more enabling environment for investors coming into the industry. The GON has also begun a credit support scheme for sugarcane growers through the Central Bank of Nigeria (CBN) and commercial banks. The GON intends to provide infrastructure such as access roads, water boreholes, power lines, land acquisition, and health care facilities for new sugar estates. The country has also banned imports of refined sugar in retail-ready packets, although supermarkets still stock them. The privatization process was fully completed in 2008 and the NSDC plans to implement an out-grower program that will eventually include all 14 sugar producing locations in the country. The out-grower program will deliver inputs and credits to cooperatives at a low interest rate of 7 percent compared to up to 28 percent or at more traditional lending rates.

At the moment there are four major players in the industry: Dangote Sugar Refinery (DSR), (which acquired 95 percent of Savannah Sugar) BUA Sugar Refinery, Josepdam Sugar Company, and new entrant Flour Mills of Nigeria. Available records on installed refinery capacity show Dangote Sugar's as 1.44 million metric tons, BUA's at 720,000 metric tons, and Flour Mills of Nigeria (Golden Sugar Company) commenced operations of a 750,000 metric tons plant in June 2013. Some new investors are entering the market place with the aim of expanding capacities at older sugar estates but the rehabilitation of these estates remains stalled at various stages of development.

In total, investments in annual sugar refining capacity have reached 2.9 million tons, exceeding national consumption needs estimated at 1.7 million tons per year. Despite this overcapacity, investors are establishing additional sugar refineries, aiming at future export markets. These increasing investments appear to be spurred by Nigeria's low tariffs on raw sugar (subject to a duty of just 5% and exempted from the development levy).

About 98 percent of all sugar imports come in the form of raw sugar that is refined locally while the remainder of imports is refined sugar. More than 90 percent of raw sugar is imported from Brazil.

Effective January 1, 2013, the GON revised the sugar tariff structure to revitalize activities in the sugar estates, boost domestic raw sugar production for the sugar refineries and create jobs. New tariffs for raw and refined sugar were announced, as well as for sugar related production equipment and machinery.

With privatization completed, the NSDC has shifted its focus to support the development of the industry, via research and development, promotion of mini plants, support for an out-grower program, and establishing a price support mechanism to ensure that farmers receive a fair price from the newly privatized estates. The NSDC aims to implement an out-grower program that will eventually run in all sugar producing locations in Nigeria. The NSDC, in collaboration with the private operations, aims to assist farmers in the acquisition of fertilizers, pesticides and improved seed cane with the help of the Central Bank of Nigeria (CBN) and local commercial banks.

These are the GON incentives in the sugar sector as stated in the Nigerian Sugar Master Plan:

- low duty of 2.5% on machinery for the industry;
- chemicals for sugar production have zero duty;
- import duty of 20% on refined sugar, as well as a development levy of 10% and VAT of about 5%;
- Provision of infrastructure including access roads, boreholes, power lines, land acquisition, and health care facilities for new sugar estates;
- 100 percent foreign ownership of sugar complexes is allowed;
- Provision of a credit support scheme for sugarcane growers in collaboration with the Central Bank of Nigeria (CBN) and commercial banks.

These measures have shifted investment patterns towards the goal of backward integration in the sugar value chain.

The Executive Secretary of NSDC, Dr. Latif Busari, indicated that Nigeria is targeting production of 1.7 million tons of by 2018. He said production in excess of national consumption will go into the export market. He further indicated that the GON Nigeria Sugar Master Plan (NSMP) requires massive private sector investments of more than \$3.1 billion over the next 10 years to fully cover Nigeria's 28 sugar projects (which include estates, infrastructure, etc.).

So far the Nigerian sugar market has attracted about \$2.6 billion in investments from local and international investors. The investments are being used for expansion of production capacity to meet current and future consumption.

A breakdown of the \$2.6 billion showed that Dangote Group is leading with a fresh investment of \$2 billion on projects in six states to produce about 1.5 million metric tons. It is also planning to expand its Savannah Sugar operations from the current 6,500 hectares (ha) to 21,000 ha by 2018 to produce 100,000 tons sugar annually. The HoneyGold Group is planning to invest \$300 million on two sites in Adamawa state to produce 200,000 tons sugar annually. Crystal Sugar Mills is spending \$30 million to expand its operations to produce 60,000 tons of sugar per year by 2018 from its recently acquired 1,500 TCD(Tons of Cane crushed per Day) Sugar plant at Hadejia, Jigawa state, while Confluence Sugar Company is investing \$240 million in Kogi State to produce 200,000 tons of sugar per year on about 37,000 ha of land at Ibaji.

According to industry watchers, the privatization of sugar estates has brought improvements in the subsector, given that it is now better managed. This, to them, can be attributed to efforts by the federal government through the Nigerian Sugar Master Plan (NSMP) and the National Sugar Development Council. But the challenge for the GON is to develop strategies to meet the demands of 170 million or more consumers. Nigeria's sugar consumption will grow significantly in the next five years following increasing middle class membership and incomes and as Nigeria's food processing sector continue to show growth.

Industry players say there is an urgent need to establish mills where the sugarcane can be crushed close to farmers. They also add that sufficient land should be provided to grow this crop. Independent sugar cane farmers complain that they cannot find industrial buyers, consequently resulting in much post-harvest wastage.

Due to the challenges faced by these sugar cane farmers, foreign companies are reportedly interested in partnering with local investors to invest in sugarcane production. Brazilian companies are reportedly interested in partnering with local investors in developing some greenfield sites for sugar cane production.

Exchange Rate: \$1 = 160 Naira

## **Sugar, Centrifugal**

### **Production:**

Nigeria's domestic sugar production for MY2013/2014 has slightly increased to 70,000 tons (raw value), compared to 65,000 tons in MY2012/2013.

Dangote-owned Savannah Sugar has completed the first phase of its rehabilitation program, with about 6,700 hectares of newly planted sugar cane fields. Its growth production target is 1.5 million tons of sugar cane and plans expansion from the current 6,700 hectares (ha) to 21,000 ha to produce 100,000 tons of sugar annually by 2018. Dangote has also embarked on expansion of the crushing plant from 50,000 tons per annum to 200,000 tons. This expansion necessitated building a new factory building and procurement of new machinery. Josepdam Sugar Company has embarked on an aggressive nursery establishment to produce enough sugar cane seeds for field expansion. Currently it has 1,250 hectares of seed cane but the available raw material is still not adequate to start operations. Other sugar estates are in varying stages of rehabilitation. For example, Golden Sugar Company (Sunti), owned by Flour Mills of Nigeria (FMN), has developed 2,000 hectares of land and planted over 1,000 hectares of sugarcane (using a center-pivot irrigation system) but has not reached the minimal level necessary for successful milling.

The average yield of refined sugar from a ton of cane is estimated at approximately 0.0961 or 9.61 percent in Nigeria. These moves are seen as being in response to GON's adjustments in duties, new tax breaks and other incentives for agricultural development. An industry analyst with a leading Nigerian bank sees Nigeria's sugar consumption increasing from about 1.2 million tons of sugar in 2012/13 to reach or exceed 1.5 million tons in 2020.

### **Consumption:**

Nigeria is a large consumer of sugar in but the country's sugar industry still depends on raw sugar imports. Nigeria's overall sugar consumption in MY2013/14 was estimated at 1.34 million tons. There is also no competing High-Fructose Corn Syrup (HFCS) in the market. The forecast is based on population growth as well continued industrial demand. Sugar use in industrial activities such as manufacturing soft drinks, pharmaceuticals, biscuits, other beverages and confectionary products demand is steady, while demand for direct household consumption remains firm. Soft drink production alone accounts for about half of total industrial usage.

### **Trade:**

Raw sugar imports in MY 2013/14 were estimated at 1.345 million tons with ending stocks of 100,000 tons, which is slightly higher from the revised estimate for MY 2012/13. Only 125,000 tons of refined sugar were imported for MY 2013/14. In MY 2012/2013, Nigeria imported 1.325 million tons of raw sugar while imports for refined sugar remain unchanged. The total imports figure estimate is 1.47 million tons in MY 2013/2014. An increase of 3% in raw sugar imports is driven by rising disposable incomes and growth of the urban population.

Due to changes in the trend of the backward integration policy and other favorable government policies which have driven investors, Post forecasts that raw sugar imports may drop slightly to 1.34 million tons and sugar consumption to increase to about 1.29 million tons in MY2014/2015.

The bulk (over 90 percent) of Nigeria's sugar imports, both raw and refined, come from Brazil. Nigerian refined sugar exports to neighboring countries are expected to continue in MY2014/15, especially as the Nigerian market still serves markets in Ghana, Niger and Senegal. Nigerian Sugar brands are found in many West and Central African countries.

### **Policy:**

The GON aims to move quickly from dependence on raw sugar imports to 100% self-sufficiency, reaching at least 70 percent of domestic sugar production in the medium term. The privatization of government-owned, fully integrated sugar companies has been a key element of GON's overall strategy of achieving this goal. Privatization has undoubtedly improved the management of the sugar refineries and has stimulated substantial new investments in production, infrastructure, etc. Reports from industry sources indicate that there could be a little increase in current domestic sugar supply structure.

The GON recently dramatically revised its sugar tariff structure announcing new tariffs for raw and refined sugar as well as sugar related equipment and machinery. These became effective January 1, 2013 and were followed by a sudden imposition of an outright import ban on refined sugar (announced in mid-January 2013). The objectives of this action were to revitalize activities in the existing local sugar estates, boost domestic raw sugar production for the local sugar refineries, and create jobs.

The refining industry is further helped by the government's public health policy of requiring all sugar intended for direct consumption to be fortified with Vitamin A as part of a national effort to eradicate Vitamin A deficiency, which costs about 750 Naira (\$5) per ton. However, local refineries are allowed to supply non-fortified sugar to industrial users, such as the Coca Cola Company, as a result of the industrial users' complaints that fortified sugar induces undesirable changes in color, taste, and appearance in their products.

### **Comments:**

Going by Nigeria's population (about 170 million people growing at 3 percent per annum) and the recommended daily sugar intake, the country is a potential market for 1.5 billion tons of sugar per year while current national demand is about 1.2 million tons, making it the 2nd largest consumer of sugar in Africa following South Africa. Of the current huge domestic market, Nigeria now can only produce about 2 per cent of the raw sugar for this production while over 75 per cent is imported and refined by the few investors in the country's sugar sector. It will require long-term massive area expansion and enormous funding in sugar cane production research, stock, and technology for the country to meet the current and fast growing demand.

Industry analysts indicate that there are some improvement in the management and operation of the privatized sugar estates and increases in sugarcane production as a result of the NSDC and NSMP. But they remain insignificant compared with what the sector requires. A major producer of biscuits,

chewing gums and sweets in Nigeria recently said: “The three main raw materials required for biscuit production are flour, sugar and palm oil. The long-term policy of encouraging local sugar cane plantations and growing of sugar cane locally is a fantastic policy but it needs time. Sugarcane planting and harvesting cannot just start overnight.” Also, the expectation is that the NSMP policy document will bring industrial infrastructure development, an improvement of the business environment through simplified regulations, development of appropriate technologies, and a focus on creating a structure for institutionalized capacity building and skill development that will provide jobs to youths. This has to be delivered upon for the industry to meet targets.

In addition, Nigerian independent sugar farmers are reported to be discouraged from increasing or even continuing their sugar production as they cannot find industrial buyers, resulting in massive post-harvest wastage. Industry analysts also indicate that local sugar refining firms are not able to site processing factories in rural major producing areas due to poor infrastructure such as bad road networks and electrical shortages. Nigeria has improved its sugar production but much work remains to be done before it can meet rising internal demand. Exports remain a very long-term possibility.

### Production, Supply and Demand Data Statistics:

[illegible]